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Financial reports and audited financial statements, and reports of the Board of Auditors: United Nations Joint Staff Pension Fund

Implementation of the recommendations of the Board of Auditors contained in its report for the year ended 31 December 2015 on the United Nations Joint Staff Pension Fund

Report of the Secretary of the United Nations Joint Staff Pension Board

Summary

The present report is submitted in accordance with General Assembly resolution 48/216 B, in which the Assembly requested the executive heads of the United Nations entities to report to the Assembly, at the same time as the recommendations of the Board of Auditors were submitted to the Assembly, on measures taken or to be taken to implement those recommendations.

The report provides information further to the comments already submitted to the Board of Auditors, which were included in the final report of the Board on the United Nations Joint Staff Pension Fund.

Therefore, in an effort to reduce redundancy and streamline documentation, the present report provides additional comments of the Pension Fund only where required, as well as information on the status of implementation, the department responsible, the estimated completion date and the priority of each recommendation contained in the reports of the Board. In addition the report provides an update on the status of implementation of the recommendations of the Board relating to prior periods that the Board considered not to have been fully implemented.

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I. Introduction

1. The present report is submitted in accordance with the provisions of paragraph 7 of General Assembly resolution 48/216 B, in which the Assembly requested the executive heads of the United Nations entities, at the same time as the recommendations of the Board of Auditors were submitted to the Assembly, through the Advisory Committee on Administrative and Budgetary Questions, to provide the Assembly with their responses and to indicate the measures that would be taken to implement those recommendations, with appropriate timetables.

2. In preparing the present report, account was taken of the provisions of General Assembly resolution 70/238, in which the Assembly, in paragraph 14, stressed that the report of the Board of Auditors on the United Nations Joint Staff Pension Fund should be submitted separately to the General Assembly, as is the case with other United Nations entities, and decided that a copy should continue to be annexed to the report of the United Nations Joint Staff Pension Board. In paragraph 15 of the same resolution, the General Assembly decided to continue to consider the report of the Board of Auditors on the United Nations Joint Staff Pension Fund in the context of the report of the United Nations Joint Staff Pension Board.

A. Implementation of the recommendations contained in the report of the Board of Auditors on the United Nations Joint Staff Pension Fund for the year ended 31 December 2015[1]

3. The status of implementation of the main recommendations as at September 2016 is summarized in table 1.

Table 1
Status of implementation of main recommendations

Department responsible	*Number of recommendations*	*Implemented*	*In progress*	*Target date set*	*No target date*
Investment Management Division	4	–	4	4	–
Pension Fund secretariat	4	–	4	4	–
Total	**8**	**–**	**8**	**8**	**–**
Percentage	**100**	**–**	**100**		

4. The status of implementation of all recommendations as at September 2016 is summarized in table 2.

[1] A/71/5/Add.16.

Table 2
Status of implementation of all recommendations

Department responsible	*Number of recommendations*	*Implemented*	*In progress*	*Target date set*	*No target date*
Investment Management Division	11	–	11	11	–
Pension Fund secretariat	6	–	6	6	–
Total	**17**	**–**	**17**	**17**	**–**
Percentage	**100**	**–**	**100**		

5. **In paragraph 28, the Board recommended that while filling up the vacancies at senior levels at the earliest, the Pension Fund draw a succession plan that can foresee and address the change that will occur when senior employees' positions are vacant.**

Department responsible: Investment Management Division

Status: In progress

Priority: High

Target date: Fourth quarter 2016

6. The Pension Fund has developed a succession plan that addresses pending known senior level vacancies. Most of the current senior level vacancies have been advertised, and measures are being taken to fill pending vacancies.

7. **In paragraph 37, the Board recommended that the Pension Fund devise a mechanism to assess the value addition to the performance owing to active management of the portfolio on a regular basis so as to assess its impact and implement course correction as deemed necessary.**

Department responsible: Investment Management Division

Status: In progress

Priority: Medium

Target date: Fourth quarter of 2017

8. The Pension Fund is in the process of developing such a mechanism with input from the Investments Committee and others. Various methods of factor-based and style-based attribution analysis are being tested. This analysis is providing valuable data, and the selected methodologies and resulting reports will be utilized on a regular basis.

9. **In paragraph 44, the Board recommended that the Pension Fund establish customized reference benchmarks taking into account the Fund's special criteria, which will better measure the Fund's overall performance.**

Department responsible:	Investment Management Division
Status:	In progress
Priority:	Medium
Target date:	Fourth quarter of 2017

10. The Pension Fund is tracking the impact of tobacco and armament restrictions on the performance of its equity portfolios, as noted in paragraph 40 of the Board report. Additionally, as noted in paragraph 42 of the Board report, the Fund has been studying the possibility of utilizing a customized benchmark to take tobacco and armament restrictions into account. The Fund will establish a customized reference equity benchmark by comparing the performance of global equity to a benchmark such as Morgan Stanley Capital International All Country World Index, former tobacco and/or former armament stocks. The current equity benchmark will also continue to be used since the Fund's policy benchmark and the Asset Liability Management study were based on that benchmark.

11. **In paragraph 49, the Board recommended that (i) the Pension Fund introduce a mechanism for a more frequent supervisory review of the underperforming securities based on certain predefined parameters; and (ii) the Fund formalize the system for regularly tracking risk tolerance monitoring and risk management, by the Representative of the Secretary-General through the Director of the Investment Management Division and the Deputy Director for Risk and Compliance.**

Department responsible:	Investment Management Division
Status:	In progress
Priority:	High
Target date:	Fourth quarter of 2017

12. The Pension Fund is in the process of (a) introducing a mechanism for more frequent supervisory review of underperforming securities; and (b) formalizing the system for regularly tracking risk tolerance monitoring and risk management.

13. **In paragraph 60, the Board recommended that the Pension Fund review its investment and risk processes, including learning lessons from higher performing Funds, so as to improve its efforts to achieve the targeted 3.5 per cent real rate of return.**

Department responsible:	Investment Management Division
Status:	In progress
Priority:	High
Target date:	Fourth quarter of 2017

14. The Investment Management Division is making arrangements to conduct a review of performance, risk management and main practices through other similar pension funds.

15. **In paragraph 68, the Board recommended that the Pension Fund carry out a review of the cash requirements of various currencies in order to keep a minimum investment in cash, given that carries a low return and is subject to foreign exchange fluctuation.**

Department responsible:	Investment Management Division
Status:	In progress
Priority:	Medium
Target date:	Fourth quarter of 2017

16. The Investment Management Division is carrying out a review of cash requirements of various currencies. The review will include, but not be limited to, an assessment of cash that is used for investment purposes and for benefit payment purposes.

17. **In paragraph 75, the Board recommended that the Pension Fund: (a) address the foreign exchange exposure issue and employ suitable procedures and tools to mitigate foreign exchange losses; and (b) develop an internal mechanism to monitor, evaluate and manage losses or gains owing to foreign exchange in addition to regular monitoring of fair value of the assets.**

Department responsible:	Investment Management Division
Status:	In progress
Priority:	Medium
Target date:	Fourth quarter of 2017

18. The Pension Fund informed the Board about the efforts that have been made to monitor and study foreign exchange exposure during 2015, as indicated in paragraphs 72 and 74 of the Board report. The Investment Management Division is making arrangements to conduct formal research on that topic in order to supplement efforts made during 2015.

19. **In paragraph 83, the Board recommended that the Pension Fund review its processes for the fixed income investments to ensure that it meets or exceeds its benchmark.**

Department responsible: Investment Management Division

Status: In progress

Priority: Medium

Target date: Second quarter of 2017

20. The comments of the Pension Fund are reflected in paragraph 81 of the Board report. The Fund has reviewed and will continue to review its fixed income processes to ensure that it meets or exceeds its benchmark.

21. **In paragraph 89, the Board recommended that the Pension Fund prepare a time-bound action plan to finalize and publish its selection and evaluation criteria for external funds and discretionary investment managers.**

Department responsible: Investment Management Division

Status: In progress

Priority: High

Target date: Fourth quarter of 2017

22. The Pension Fund recognizes the importance of that recommendation and time-bound procedures are being developed accordingly.

23. **In paragraph 94, the Board recommended that the Pension Fund enter into a service level agreement defining the respective roles and responsibilities and service level benchmarks and that it develop a mechanism to secure its compliance.**

Department responsible: Investment Management Division

Status: In progress

Priority: Medium

Target date: Second quarter of 2017

24. The Pension Fund will establish a service level agreement that will incorporate related legal and procurement considerations in order to develop a mechanism to secure compliance. The Fund will revise the standard Bloomberg service level agreement and set up internal roles and schedules for periodic monitoring.

25. **In paragraph 99, the Board recommended that the Pension Fund: (a) resolve the issues of data migration; and (b) frame key performance indicators as per functional requirements for assessing the accuracy and timeliness of outcomes of the Integrated Pension Administration System (IPAS).**

Department responsible:	Pension Fund secretariat
Status:	In progress
Priority:	High
Target date:	Third quarter of 2017

26. As reflected in the report of the Board of Auditors, in the migration to the new IPAS, there were minimal data exceptions, which occurred only for historical data not affecting any calculations. Data exceptions have been corrected as part of normal verification in benefit processing in the first year since IPAS go-live. A business intelligence pilot is being evaluated for updating and monitoring performance indicators and targets. Information technology-related key performance indicators are being developed within the business intelligence tool. Performance indicators will be available for analysis and monitoring in a management dashboard expected to be completed by the third quarter of 2017.

27. **In paragraph 105, the Board recommended that the Fund: (a) acknowledge all queries and complaints received from all sources; (b) segregate queries and complaints so as to address them appropriately; (c) devise a system of categorization and prioritization of complaints and their resolution; (d) inform the client periodically about the progress achieved in the resolution of the complaint; (e) devise a system for monitoring and reporting the status of grievances to the appropriate levels in the Pension Fund to ensure an effective client delivery mechanism; and (f) review the complaints data to help to identify the weaknesses of the system and to improve and streamline the existing processes.**

Department responsible:	Pension Fund secretariat
Status:	In progress
Priority:	High
Target date:	Fourth quarter of 2017

28. As presented to the Pension Board at its sixty-third session in July 2016, the Pension Fund will implement a new client service model. The new client service model will address the observations made by the Board and opportunities for improvement identified in a client service review completed by an independent consulting firm in May 2016. The new client service model will include, as key elements, a pilot Client Services call centre and the associated management and monitoring system for Client Services. Complementarily, the Fund will start and head a Working Group with the Staff Pension Committees on self-service.

29. **In paragraph 110, the Board recommended that the Pension Fund prescribe a time frame for servicing the caseload. An internal reporting framework for each type of benefit based on its priority should be established.**

Department responsible:	Pension Fund secretariat
Status:	In progress
Priority:	High
Target date:	Third quarter of 2017

30. The IPAS system is currently in the stabilization stage, at the end of which previous performance indicators will be updated to reflect the processing in the new system and the significant increase in separations compared to historical levels. Updated performance indicators will be monitored using an enhanced business intelligence environment. Detailed reporting in the new system will include the aging of outstanding cases. Complementarily, the Pension Fund is focused on improving caseload management in terms of planning, processing and monitoring. Death in service, survivor and disability benefits will continue to be handled as "priority" cases.

31. **In paragraph 115, the Board recommended that the Pension Fund simplify the process of obtaining the certificate of entitlement, including exploring the option of engaging the corresponding banks in the process.**

Department responsible:	Pension Fund secretariat
Status:	In progress
Priority:	Medium
Target date:	Fourth quarter of 2017

32. The Pension Fund has implemented a number of actions to enhance the certificate of entitlement process, including the review of the annual cycle to ensure that all activities from the date of the mailing to the related follow-up actions are completed within a calendar year, and the release of the Fund member self-service on 31 August 2016. The new member self-service will allow certain beneficiaries to download the certificate of entitlement form, and monitor when the signed certificate of entitlement was received by the Fund. The Fund will continue exploring opportunities to enhance the certification of entitlement process.

33. **In paragraph 123, the Board recommended that: (a) the Pension Fund impress upon the participating organizations the need to ensure that they identify and submit to the Fund sufficiently in advance cases that are due for separation in the normal course of business; and (b) check the status of documentation and jointly devise a mechanism to resolve the issues related to incomplete or missing documentation from member organizations.**

Department responsible:	Pension Fund secretariat
Status:	In progress
Priority:	High
Target date:	Third quarter of 2017

34. The roles and responsibilities of the Staff Pension Committees of member organizations are set out in the Regulations, Administrative Rules and Rules of Procedure of the United Nations Joint Staff Pension Fund. The terms of reference for the Staff Pension Committees and their Secretaries consolidate all the roles and responsibilities and recognize that member organizations are responsible for the accurate, complete and timely submission of separation information and documents to the Fund. The Fund will work closely with member organizations to identify mechanisms to expedite the submission of separation documents to the Fund, and to identify mechanisms to resolve issues related to incomplete and missing documentation from member organizations. The Fund will also conduct, with the support of an external consultant and in coordination with the member organizations, an end-to-end review of separation-to-entitlement process to identify opportunities to achieve greater efficiency and effectiveness and improve coordination. The results of the end-to-end review will be presented to the Pension Board at its sixty-fourth session in July 2017.

35. **In paragraph 129, the Board recommended that participant reconciliation exceptions need to be resolved in a time-bound manner so as to avoid any dispute with the participating organizations and to ensure that up to date and accurate financial statements can be prepared for the Fund and the participating organizations.**

Department responsible:	Pension Fund secretariat
Status:	In progress
Priority:	Medium
Target date:	Fourth quarter of 2017

36. The participant reconciliation exceptions process is in essence a quality improvement exercise, which does not affect the accuracy of the financial statements. In the process, the Pension Fund identifies data discrepancies that require action and resolution by Fund member organizations. To address the Board recommendation, the Fund will complete the implementation of the project for monthly reconciliation of contributions approved in the Fund budget for the biennium 2016-2017. The project will be completed, for some Fund member organizations, by the fourth quarter of 2017.

37. **In paragraph 132, the Board recommended that the Pension Fund: (a) finalize the anti-fraud policy at the earliest opportunity; and (b) widely circulate the policy and make staff aware of its provisions and implications.**

Department responsible:	Investment Management Division
Status:	In progress
Priority:	Medium
Target date:	Second quarter of 2017

38. The Investment Management Division staff must comply with the anti-fraud and anti-corruption framework, which was recently adopted by the United Nations Secretariat. Additionally, the Division has drafted its own anti-fraud and anti-corruption policy, which addresses investment-specific issues. Subsequent to adoption, the policy may be further updated, since it is a living document.

B. Implementation of the recommendations contained in the reports of the Board of Auditors on the United Nations Joint Staff Pension Fund for prior financial periods

39. In the annex to its report for the year ended 31 December 2015 (A/71/5/Add.16), the Board provided a summary of the status of implementation of recommendations from previous financial periods.

40. The overall situation as at September 2016 regarding the nine recommendations assessed as not fully implemented by the Board is summarized in table 3.

Table 3
Status of implementation of extant recommendations from prior periods considered not fully implemented in annex I to the report of the Board of Auditors

Department responsible	*Number of recommendations*	*Implemented*	*In progress*	*Target date set*	*No target date*
Investment Management Division	4	0	4	4	–
Pension Fund secretariat	5	0	5	5	–
Total	**9**	**0**	**9**	**9**	**0**
Percentage	**100**	**0**	**100**		

41. In paragraph 19 of its report for the year ended 31 December 2013 (A/69/9), the Board recommended that the Pension Fund closely collaborate with member organizations to ensure that those organizations submit contribution data in a timely manner and keep in close communication with the actuarial service provider to ensure that the actuarial report could be produced and included in the formal financial statements in a timely manner.

Department responsible:	Pension Fund secretariat
Status:	In progress
Priority:	Medium
Target date:	Second quarter of 2017

42. In 2015, the implementation of a new enterprise resource planning system in various Pension Fund member organizations delayed the finalization of the financial statements for the year ended 31 December 2015. Delays in the submission of participant level information to the Fund also delayed the completion of the thirty-third actuarial valuation of the Fund as at 31 December 2015, as the Consulting Actuary could begin the actuarial valuation only upon the completion of the Fund financial statements. Thus, the actuarial valuation as at 31 December 2013 was included in the Fund financial statements for the year ended 31 December 2015. The 2015 actuarial valuation of the Fund will be incorporated into the Fund financial statements for the year ended 31 December of 2016.

43. **In paragraph 47, the Board recommended the Pension Fund to: (a) continue to improve controls and efficiency of the participant reconciliation exceptions process to ensure that the discrepancies are identified and reconciled with member organizations in a timely manner; and (b) prepare monthly and year-end contribution reconciliations to ensure the accuracy of the contributions and receivables recorded in pension system and financial statements.**

Department responsible:	Pension Fund secretariat
Status:	In progress
Priority:	Medium
Target date:	Fourth quarter of 2017

44. As noted above, the participant reconciliation exceptions process is a quality improvement exercise that does not affect the accuracy of the financial statements. Data discrepancies identified during the process require action and resolution by Pension Fund member organizations. The Fund will complete the implementation of the project for monthly reconciliation of contributions, which was approved in the Fund budget for the biennium 2016-2017, for some member organizations by the fourth quarter of 2017.

45. **In paragraph 51, the Board recommended the Pension Fund to: (a) utilize and promote the online self-service as an additional tool in the certificate of entitlement process, along with the smooth implementation of IPAS; and (b) consider establishing a practical plan to develop an automatic signature verification system or thumbprint/live image verification system to facilitate the certificate of entitlement process.**

Department responsible:	Pension Fund secretariat
Status:	In progress
Priority:	Medium
Target date:	Fourth quarter of 2017

46. The Pension Fund has implemented a number of actions to enhance the certificate of entitlement process, including the review of the annual cycle to ensure that all activities from the date of the mailing to the related follow-up actions are completed within a calendar year; and the release of the Fund member self-service on 31 August 2016. The new member self-service allows beneficiaries to download the certificate of entitlement form, and monitor when the signed certificate of entitlement was received by the Fund. The Fund will continue exploring opportunities to enhance the certificate of entitlement process.

47. **In paragraph 30 of its report for the year ended 31 December 2014 (A/70/325), the Board recommended that the Pension Fund expedite introduction of the counter party settlement system in a time-bound manner.**

Department responsible:	Investment Management Division
Status:	In progress
Priority:	Medium
Target date:	First quarter of 2017

48. Phase 1 of the implementation of the Bloomberg Aim Trade Order Management System was completed on 18 January 2016. Phase 2, which includes the counter party settlement system, is scheduled to be completed during the fourth quarter of 2016.

49. **In paragraph 35, the Board recommended that the Pension Fund explore alternatives to mitigate the foreign exchange losses, including a detailed cost benefit study for a suitable hedging strategy.**

Department responsible:	Investment Management Division
Status:	In progress
Priority:	Medium
Target date:	Fourth quarter of 2017

50. The Investment Management Division studied various alternatives to its existing practice during 2015, as mentioned in paragraph 74 of the current report of the Board (A/71/5/Add.16). Hedging of currency risk was considered and was not utilized, recognizing the zero sum-game representation over time. The Investment Management Division is making arrangements to conduct formal research on this topic.

51. **In paragraph 41, the Board recommended that the Pension Fund take steps to achieve the policy benchmarks on each portfolio by improving its internal investment processes and practices, and endeavour to achieve the overall minimal real return of 3.5 per cent.**

Department responsible:	Investment Management Division
Status:	In progress
Priority:	Medium
Target date:	Fourth quarter of 2017

52. The Representative of the Secretary-General signed and formally approved an updated investment policy statement on 18 July 2016. The updated investment policy statement includes benchmarks and weightings for the Pension Fund and for each asset class. It also includes the Fund's strategic asset allocation, which was adopted on 1 August 2015 and is based on the most recent asset liability management study. Success of this updated policy in achieving the Fund's near-term and long-term return objectives, the policy benchmark and 3.5 per cent goals, respectively, is being monitored on a monthly basis through performance reports by the Investment Management Division. Additionally, quarterly performance reports are reviewed by the Investment Management Division and the Investments Committee.

53. **In paragraph 48, the Board reiterated its recommendation that the Pension Fund continue its efforts to reconcile and resolve all participant reconciliation exceptions with member organizations in a timely manner. The Board added that until such time as a system is implemented to enable monthly reconciliations, the Fund may consider including a suitable disclosure in the financial statements on the quantum of unresolved participation reconciliation exceptions.**

Department responsible:	Pension Fund secretariat
Status:	In progress
Priority:	Medium
Target date:	Fourth quarter of 2017

54. To address the Board recommendation, the Pension Fund will complete the implementation of the project for monthly reconciliation of contributions, which was approved in the Fund budget for the biennium 2016-2017. The project will be implemented, for some member organizations, by the fourth quarter of 2017. A disclosure in the financial statements was not deemed necessary since the participant reconciliation exceptions process is a quality improvement exercise that does not affect the accuracy of the financial statements.

55. **In paragraph 53, the Board recommended that the Pension Fund ensure adherence to the stipulated benchmark for the processing of benefits through**

improvements in efficiencies and use of information technology-enabled services, since service to its members is the primary function of the Fund.

Department responsible:	Pension Fund secretariat
Status:	In progress
Priority:	High
Target date:	Third quarter of 2017

56. Following the go-live of the IPAS system in August 2015, the system is currently in the stabilization stage. Accordingly, performance in the processing of benefits is measured by the ability to reduce extraordinary surge in processing volume and the ability to process new cases. Upon completion of the stabilization stage, performance indicators will be updated to reflect processing levels in the IPAS system and the significant increase in separations compared to historical levels. Updated performance indicators and targets will be defined by the third quarter of 2017.

57. **In paragraph 65, the Board recommended that the Pension Fund: (a) formulate a holistic policy for the strategic planning, governance and management of various information technology projects required or under implementation; and (b) take proactive measures to expedite the procurement of the replacement for the existing trade order management system and restrict additional expenditure on interim measures.**

Department responsible:	Investment Management Division
Status:	In progress
Priority:	High
Target date:	Fourth quarter of 2018

58. The Investment Management Division is in the process of developing a comprehensive information and communications technology strategy that will address both infrastructure and applications, in order to ensure secure and continuous operations. Progress has been made, as evidenced by the successful implementation of the Bloomberg AIM Trade Order Management System on 18 January 2016.